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C O N F I D E N T I A L SECTION 01 OF 02 MINSK 000696

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E.O. 12958: DECL: 08/13/2017
TAGS: ECON PGOV PREL BO
SUBJECT: PINT-SIZED PRIVATIZATIONS UNDER WAY WHILE
BELARUSIAN REGIME DENIES REALITY

REF: A. MINSK 620
¶B. MINSK 250

Classified By: DCM Jonathan Moore for reason 1.4 (d).

Summary

¶1. (C) August could become a relatively significant month for privatizations. An Austrian company apparently fronting for Belarusians will purchase a controlling packet in an ailing bicycle factory. More significantly, potential investors submitted bids for one of the country's largest breweries. However, the failure of the GOB to accept offers for Belarus' cement industry suggests larger-scale sales of state property will come only when state coffers begin to run bare. End summary.

Tour de Farce: "Austrians" to Prop Up Bicycle Plant
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¶2. (C) On August 2, media reported the Austrian company ATEC Holding GmbH would pay USD 7.3 million for a 99 percent stake in Motovelo, an unprofitable bicycle plant in central Minsk. Aleksandr Chubrik of the Institute for Privatization and Management Research Center (IPM) and Yaroslav Romanchuk, Director of the Mises Research Center, independently told Acting Pol/Econ Chief that ATEC was likely a cover for Belarusian interests. Romanchuk argued Motovelo's location provided the motivation for the purchase. He predicted bicycle production would continue due to political considerations, but the new owners would profit by converting much of the desirable land to office space.

Bottoms Up to Brewery Privatization

¶3. (C) In a more significant move for the economy as a whole, the President appears on the verge of authorizing the privatization of one of the country's largest breweries, Krinitsa. Nikolay Dudko, the Director of private competitor Olivariya, reasoned that Krinitsa had taken on so much debt to modernize that privatization was the only option to pursue further upgrades. He estimated the privatization could bring up to USD 500 million for the GOB.

¶4. (C) Dudko said the Golden Share rule, which allows the government to renationalize from state property, did not hinder privatization of breweries. With the market expanding at a rate of 20 percent annually, all breweries could expand production, satisfying the GOB's desire to see the food processing section double its output during the 2006-10 five year plan.

¶5. (C) Sergey Levin, Director of the private Detroit Belarus Brewing Company, said Lukashenko and an army of mid-level bureaucrats opposed privatization. Yuriy Slepich of Priorbank (owned by Austria's Raiffeisen bank) and a member of Krinitsa's board of directors by virtue of the bank's loans to the brewery, noted that one bidder for Krinitsa paid a substantial sum to a consultant. The sum was supposedly to properly value Krinitsa. Romanchuk believes private interests with ties to the government have a personal stake in the privatization, and commented that Austrians do not invest unless they have good connections.

Bureaucrats May Still Tell Brewers How to Make Beer
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¶6. (C) Sergey Zhbanov, economics correspondent with the independent weekly "Belgazeta," said demands by the government that breweries use domestic hops would scare off any Western investor interested in producing a quality product. Levin also complained of frequent demands from state organs that his company's Bobruysk brewery buy Belarusian. The resulting inefficiencies among local brewers allow Russian importers to command 15 percent of the market, whereas in most countries importers have only a one-percent share, according to Dudko.

Cement Plant Privation Talks Fail to Bring Concrete Results
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¶7. (C) Roman Osipov, Head of Investments at Uniter Investments, told Acting Pol/Econ Chief earlier in the year that foreign companies were considering purchasing stakes in Belarus' cement industry. However, on July 27, Lukashenko announced Belarus would seek USD 600 million in loans to

modernize (although the GOB will consider allowing the construction of up to three new private cement factories). Irina Tochitskaya, Deputy Director of IPM, cited the decision to keep existing plants in state hands as an indication that the government did not have a clear intention to push forward with privatizations.

Comment: The Main Event is Still to Come

¶8. (C) The privatization of relatively small employers in sectors viewed by Lukashenko as non-strategic shows some movement away from almost paranoid state control of the factories. The resolution, at least temporarily, of inter-clan struggles within the regime (ref A) may have at last provided the dictator with breathing room to sign off on even these small-scale deals. However, prospects for more privately produced beer and bicycles do little to change earlier forecasts (ref B) that Lukashenko will look at more serious sales only when energy price increases begin to hit the economy even harder.
Stewart